

806 KAR 6:080. Reserve standards for individual health insurance policies.

RELATES TO: KRS 304.6-070

STATUTORY AUTHORITY: KRS 304.2-110(1), 304.6-070

NECESSITY, FUNCTION, AND CONFORMITY: KRS 304.2-110(1) authorizes the Commissioner of Insurance to promulgate reasonable administrative regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code. KRS 304.6-070 authorizes the Commissioner of Insurance to promulgate administrative regulations establishing minimum standards for reserves for individual health insurance policies. This administrative regulation establishes the minimum standards for reserves for individual health insurance policies.

Section 1. Active Life Reserves. (1) General.

(a) Active life reserves shall be required for all in-force policies and shall be in addition to any reserves required in connection with claims. For policy Types A, B, and C, established in subsection (2) of this section, the minimum reserve shall be determined as established in subsection (3) of this section.

(b)1. Minimum standards shall be in accordance with KRS 304.6-070. Higher, adequate reserves shall be established by the insurer in any case in which experience indicates that these minimum standards do not place a sound value on the liabilities under the policy.

2. For policy Type D, the minimum reserve shall be the gross pro rata unearned premium.

(2) Types of individual health insurance policies.

(a) Type A policies shall include policies that are guaranteed renewable for life or to a specified age, at guaranteed premium rates.

(b) Type B policies shall include policies that are guaranteed renewable for life or to a specified age, but under which the insurer reserves the right to change the scale of premiums.

(c) Type C policies shall include policies in which the insurer has reserved the right to cancel or refuse for one (1) or more reasons, but has agreed implicitly or explicitly that, prior to a specified time or age, it will not cancel or decline renewal solely because of deterioration of health after issue. Policies shall not be considered of this type if the insurer has reserved the right to refuse renewal provided the right is to be exercised at the same time for all policies in the same category, if premiums are graded so as to be substantially proportionate to the costs of insurance at the various attained ages.

(d) Type D policies shall include all other individual policies not already established in paragraphs (a) through (c) of this subsection.

(e) A franchise policy shall not be classified as a type of policy. Contract provisions within a franchise policy in which the right to refuse renewal of all policies in the group or other categories including those ceasing to be members of the association, shall be classified as Type D. If premiums are based on the level premium principle in which any reflection of age is on the basis of age at issue, or if the renewal undertaking for the individual meets the requirements for Type A, B, or C, the franchise policy shall be classified for reserve purposes according to the type to which it belongs.

(f) A policy that has guarantees qualifying it as Type A, B, or C until a specified age or duration after which the guarantees, or lack of guarantees shall be considered for reserve purposes according to the type to which it then belongs.

(g) If all of the benefits of a policy, as established by rider or otherwise, are not of the same Type, each benefit shall be considered for reserve purposes according to the type to which it belongs.

(3) Reserve standards for policies of Type A, B, or C.

(a) Interest. The maximum interest rate for reserves shall be the greater of the maximum rate allowed by KRS 304.6-120 through 304.6-180 and KAR Title 806 in the valuation of:

1. Currently issued life insurance; or
2. Life insurance issued on the same date as the health insurance.

(b) Mortality. The mortality assumptions used for reserves shall be according to a table allowed by KRS 304.6-120 through 304.6-180 and KAR Title 806 in the valuation of life insurance issued on the same date as the health insurance.

(c) Morbidity or other contingency. Minimum standards with respect to morbidity shall be stated in Reserve Standards for Individual Health Insurance incorporated by reference in this administrative regulation.

(d) Negative reserves. Negative reserves on any benefit may be offset against positive reserves for other benefits in the same policy, but the mean reserve on any policy shall not be taken as less than one-half (1/2) the valuation net premium.

(e) Preliminary term. The minimum reserve shall be on the basis of two (2) years preliminary term.

(f) Reserve method. Mean reserves diminished by appropriate credit for valuation net deferred premiums. The aggregate reserve for all policies valued on the mean reserve basis, diminished by any credit for deferred premiums, shall not be less than the gross pro rata unearned premiums under policies.

(g) Alternative valuation procedures and assumptions. If the reserve on all policies to which the method or basis is applied is not less in the aggregate than the amount determined according to the applicable standards established in paragraphs (a) through (f) of this subsection, an insurer may use any reasonable assumptions as to the interest rate, mortality rates, or the rates of morbidity or other contingency, and may introduce an assumption as to the voluntary termination of policies. The insurer may employ methods other than the methods established in paragraphs (a) through (f) of this subsection in determining a sound value of its liabilities under its policies, including:

1. The use of midterminal policy reserves in addition to either gross or net pro rata unearned premium reserves;
2. Optional use of either the level premium, the one (1) year preliminary term, or the two (2) year preliminary term method;
3. Prospective valuation on the basis of actual gross premiums with reasonable allowance for future expenses;
4. The use of approximations including those involving age groupings, groupings of several years of issue, and average amounts of indemnity;
5. The computation of the reserve for one (1) policy benefit as a percentage of, or by other relation to, the aggregate policy reserves, exclusive of the benefit or benefits so valued; and
6. The use of a composite annual claim cost for all or any combination of the benefits included in the policies valued. For statement purposes, the net reserve liability may be shown as the excess of the mean reserve over the amount of net unpaid and deferred premiums, or, regardless of the underlying method of calculation, it may be divided between the gross pro rata unearned premium reserve and a balancing item for the policy reverse.

(h) Gross unearned preliminary term premium. If a preliminary term method, either with a one (1) year or two (2) year preliminary term period, is employed, the gross pro rata unearned premium to be used in the comparison established in paragraph (f) of this subsection shall bear the same relationship to the net premium for the preliminary term period on the basis of the mortality, morbidity, and interest assumptions used for subsequent valuation as the gross premium charged bears to the net valuation premium used in subsequent years.

Section 2. Claim Reserves, Present Value of Amounts not Yet Due on Claims.

(1) General. Reserves shall be required for claims on all health insurance policies, including of Type A, C, or D, providing benefits for continuing loss, including loss of time or hospitalization.

(2) Claim reserve standards for total disability due to accident or sickness.

(a) Interest. The maximum interest rate for reserves shall be the maximum rate allowed by KRS 304.6-120 through 304.6-180 and KAR Title 806 in the valuation of life insurance issued on the same date as the date the claim is incurred.

(b) Morbidity. Minimum standards with respect to morbidity shall be those stated in Reserve Standards for Individual Health Insurance, except that for unreported claims and resisted claims and, at the option of the insurer, claims with a duration of disablement option of the insurer, claims with a duration of disablement of less than two (2) years, reserves may be based on the individual insurer's experience or other assumptions designed to place a sound value on the liabilities. Reserves based on that experience or assumptions shall be verified by the development of each year's claims over a sufficient period of years along the lines of Schedule O of the insurer's annual statement.

(c) For policies with an elimination period, the duration of disablement shall be considered as dating from the time that benefits would have begun to accrue had there been no elimination period.

(d) A new disability connected directly or indirectly with a previous disability that's had a duration of at least one (1) year and terminated within six (6) months of the new disability shall be considered a continuation of the previous disability.

(3) Reserve standards for all other claim reserves.

(a) Interest. The maximum interest rate for reserves shall be the maximum rate allowed by KRS 304.6-120 through 304.6-180 and KAR Title 806 in the valuation of life insurance issued on the same date as the date the claim is incurred.

(b) Morbidity or other contingency. The reserve shall be based on the individual insurer's experience or other assumptions designed to place a sound value on the liabilities. The results shall be verified by the development of each year's claims over a sufficient period of years along the lines of Schedule O of the insurer's annual statement.

(4) Valuation procedures. The insurer may employ suitable approximations and estimates, including groupings and averages, in computing claim reserves.

Section 3. Incorporation by Reference. (1) "Reserve Standards for Individual Health Insurance", 6/2020, is incorporated by reference.

(2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the Kentucky Department of Insurance, 500 Mero Street, Frankfort, Kentucky 40601, Monday through Friday, 8 a.m. to 4:30 p.m. (11 Ky.R. 681; eff. 11-13-84; TAm eff. 8-9-2007; TAm eff. 5-14-2008; Crt eff. 2-26-2020; 47 Ky.R. 394, 965; eff. 2-2-2021.)